



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

**Date:** 7/24/2003

**GAIN Report Number:** E23140

## European Union

### Agricultural Situation

### Preliminary Draft Budget 2004

### 2003

**Approved by:**

Christine Strossman  
U.S. Mission to the European Union, Brussels

**Prepared by:**

Hilde Brans

---

**Report Highlights:**

On April 30, 2003, the European Commission presented its preliminary draft budget for 2004. An "historic" budget according to the Budget Commissioner because this is the first budget containing appropriations for 10 new member states and because the budget is being restructured.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Brussels USEU [BE2]  
[E2]

## Preliminary Draft Budget 2004

### Intro

On April 30, 2003, the European Commission presented its preliminary draft budget for 2004. An "historic" budget according to Budget Commissioner Schreyer because this is the first budget containing appropriations for 10 new member states and because the budget is being restructured. Compared to 2003, the 2004 budget for Agriculture and Rural Development would increase by 6.9 percent. Proposed appropriations for CAP expenditure in 2004 are 1.4 billion Euros below the absolute CAP ceiling set in Berlin for the EU-15 and within the financial framework negotiated in Copenhagen for the new member states. Rural development gets the maximum amount available. It should be noted that market measures are 100% financed by the Community budget while rural development is co-financed by the member states. The rate of co-financing varies depending on the region in question.

Million Euros	2003 Budget	Preliminary Draft 2004 Budget	
	<b>EU-15</b>	<b>EU-15</b>	<b>EU-25</b>
CAP expenditure*	40,084	40,994	41,349
Rural development	4,698	4,803	6,536
<b>Total</b>	<b>44,782</b>	<b>45,797</b>	<b>47,885</b>
* CAP Ceiling	42,680	42,408	42,769

### Budgetary procedure

The budgetary procedure involves the three institutions of the EU: the European Commission, the Council and the European Parliament. After an internal orientation debate to lay down the main political and budgetary priorities for the coming year and after a triologue meeting between the three institutions, the Commission puts together a preliminary draft budget. After adoption by the Commission, the preliminary draft budget is sent to the budgetary authority (the Council and the European Parliament) in all Community languages. The Commission has the possibility of amending the preliminary draft by means of a letter of amendment to allow for new information (e.g. policy changes, USD exchange rates).

Adoption of the draft budget involves two readings in the European Parliament and the Council of Ministers. The Parliament has the final word on "non-compulsory" spending (e.g. rural development) while the Council has the final say over "compulsory spending" such as agricultural expenditure. However, the Parliament is entitled to propose amendments to compulsory expenditure and it is the President of Parliament's signature which makes the budget enforceable. If Parliament and the Council fail to reach agreement on the amount of expenditure after two readings, Parliament has the right to reject the entire budget and the procedure must start all over again.

Timetable:

- Debate on political and budgetary priorities within the Commission: February
- Adoption of preliminary draft budget by the Commission: April/May
- Publication of preliminary draft budget and transmission to the budgetary authority: no later than June 15
- First reading by the Council: July
- First reading by the Parliament: October
- Letter of amendment from the Commission: no later than October 31
- Second reading by the Council: November

- Second reading by the Parliament and adoption of the budget: December

## **New Budget Structure**

The 2004 budget will be the first budget officially based on the "Activity Based Budgeting" structure. The traditional separation of administrative and operational resources is being replaced by a budget structure arranged by policy area. The seven broad headings which existed until now are being replaced by 31 different policy areas. Appropriations for Agriculture and Rural Development now come under chapter 5, Fisheries under chapter 11, Health and Consumer Protection under chapter 17 and Development and Relations with ACP states under chapter 21. In the attached table giving an overview of agricultural spending (see "2004 budget proposal"), expenditure listed under the chapters Fisheries and Consumer Protection is also included. These expenditures (intervention in fishery products, tobacco fund, food safety and animal and plant health) continue to fall under the general "Heading 1a" as established in Agenda 2000. Rural development measures fall under "Heading 1b". At the Brussels Summit in October 2002, it was agreed that a specific budget ceiling for Heading 1a is to be maintained until 2013.

## **New member states**

On May 1, 2004, ten new member states will join the EU. Total requirements for EU-15 come to 45.8 billion Euros of which 4.8 billion Euros is projected for rural development, an increase of 2.2% compared to 2003. The estimate for the 10 new member states comes to 2 billion Euros of which 1.7 billion Euros would go to rural development. The accession of the new member states from May 1, 2004, will have a low impact on the 2004 agricultural budget as most of the market support measures will not apply before the 2005 budget year (starting October 15).

## **2004 Budget proposal**

The European Commission had drawn up its 2004 budget proposal assuming a conversion rate of 1 Euro = 1.07 USD, a significant change compared to the rate of 0.98 USD used in 2003 but still below the current exchange rate of 1 Euro = 1.14 USD. This assumption makes EU exports more expensive on world markets, resulting in increased export refund proposals for arable crops (532 million Euros compared to 104 million Euros in 2003). The lower beef export refund proposals (396 million Euros compared to 534 million Euros in 2003) reflect lower expectations for EU exports. The outcome of the CAP reform is expected to have a minimal impact on the 2004 budget. Only changes in the common agricultural policy for dried fodder and the milk sector would start to have an effect on the 2004 budget while the main impact of the CAP reform is not expected until 2005 and the following years (also see GAIN report E23121 "EU CAP reform deal approved").

In order to adapt forecast spending needs to the latest policy changes and market developments, the Commission will present an updated CAP budget proposal in a letter of amendment in October 2003, before the Council and Parliament's second readings (also see "budgetary procedure").

**Proposed agricultural spending in the Preliminary Draft Budget for 2004, compared to the 2003 Budget (in million Euros)**

	2004	2003	% Change
<b>Administrative expenditure (monitoring CAP measures)</b>	<b>3.9</b>	<b>3.3</b>	<b>+ 18.2</b>
Market measures on cereals	1304	603	+ 116.2
Rice	211	180	+ 17.2
Direct payments for arable crops	17,028	16,208	+ 5.1
Food programs	234	216	+ 8.3
Sugar and monetary measures	1,664	1,654	+ 0.6
Olive oil	2,351	2,341	+ 0.4
Textile plants	879	908	- 3.2
Fruit and vegetables	1,599	1,618	- 1.2
Products of the wine-growing sector	1,348	1,381	- 2.4
Tobacco	942	963	- 2.2
Other plant products	732	763	- 4.1
<b>Total plant products</b>	<b>28,292</b>	<b>26,835</b>	<b>+ 5.4</b>
Milk and milk products	2,925	2,985	- 2
Beef and veal	8,161	8,404	- 2.9
Sheepmeat and goatmeat	1,833	1,805	+ 1.5
Pigmeat, eggs & poultry, bee-keeping and other animal products	203	210	- 3.3
<b>Total animal products</b>	<b>13,122</b>	<b>13,404</b>	<b>- 2.1</b>
Rural development in the EAGGF Guarantee section	4,803	4,698	+ 2.2
Transitional instrument for rural development in EUR-10	1,733	-	-
<b>Total rural development</b>	<b>6,536</b>	<b>4,698</b>	<b>+ 39.1</b>
<b>Audit of agricultural expenditure</b>	<b>- 411</b>	<b>- 439</b>	<b>+ 6.8</b>
<b>Promotion measures</b>	<b>66</b>	<b>67</b>	<b>- 1.5</b>
Intervention in fishery products (chapter 11)	18	14	+ 28.6
Tobacco fund (chapter 17)	10	14	+ 40
Food safety, animal health & welfare, plant health (chapter 17)	248	186	+ 33
<b>Total other policy areas</b>	<b>276</b>	<b>214</b>	<b>+ 22.5</b>
<b>Total CAP expenditure (heading 1a)</b>	<b>41,349</b>	<b>40,084</b>	<b>+ 3.2</b>
<b>Total Rural development (heading 1b)</b>	<b>6,536</b>	<b>4,698</b>	<b>+ 39.1</b>
<b>Total heading 1</b>	<b>47,885</b>	<b>44,782</b>	<b>+ 6.9</b>

## Budget Council

In the Council's first reading of the 2004 draft budget on July 16, 2003, EU Budget ministers agreed to a linear cut, for an amount of 160 million Euros, in the proposed CAP appropriations in all market sectors where spending is greater than 1 billion Euros. The Council accepted the proposed rural development appropriations, 4.803 billion Euros for EU-15 and 1.733 billion Euros for the new member states, the maximum amount allowed under the Berlin budget ceilings.

**Related reports from USEU Brussels:**

Report number	Title	Date released
E23059	CAP Reform – Budget Impact	4/15/2003
E23067	EU 2003 Agricultural Budget	5/5/2003
E23109	Commission to recover 169 million Euros of farm money	6/17/2003
E23121	CAP Reform deal approved	6/26/2003
E29122	EU 2000 Agricultural Budget – Agenda 2000 consequences	11/18/1999

**Visit our website:** our website [www.useu.be/agri/usda.html](http://www.useu.be/agri/usda.html) provides a broad range of useful information on EU import rules and food laws and allows easy access to USEU reports, trade information and other practical information. More information on the EU's agricultural budget can be found at [www.useu.be/agri/budget.html](http://www.useu.be/agri/budget.html).  
E-mail: AgUSEUBrussels@usda.gov